Western Union CO
Form 10-Q
August 03, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-32903
THE WESTERN UNION COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	20-4531180 (I.R.S. Employer Identification No.)
12500 EAST BELFORD AVENUE ENGLEWOOD, CO (Address of principal executive offices)	80112 (Zip Code)

Registrant's telephone number, including area code: (866) 405-5012

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company)
Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

As of July 31, 2017, 463,994,883 shares of the registrant's common stock were outstanding.

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THE WESTERN UNION COMPANY

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements
THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	$1,378.9	$1,375.7	$2,681.3	$2,673.4
Expenses:				
Cost of services	842.9	821.9	1,643.4	1,601.3
Selling, general and administrative	321.2	293.5	583.6	553.2
Total expenses	1,164.1	1,115.4	2,227.0	2,154.5
Operating income	214.8	260.3	454.3	518.9
Other income/(expense):				
Interest income	1.4	0.7	2.5	1.6
Interest expense	(35.7)	(41.0)	(67.0)	(81.5)
Derivative gains, net	2.2	1.4	4.8	1.9
Other income/(expense), net	1.7	1.1	2.9	(0.9)
Total other expense, net	(30.4)	(37.8)	(56.8)	(78.9)
Income before income taxes	184.4	222.5	397.5	440.0
Provision for income taxes	17.9	16.9	69.3	48.7
Net income	$166.5	$205.6	$328.2	$391.3
Earnings per share:				
Basic	$0.35	$0.42	$0.69	$0.79
Diluted	$0.35	$0.42	$0.69	$0.79
Weighted-average shares outstanding:				
Basic	469.4	490.3	474.6	495.1
Diluted	472.0	493.0	477.7	498.1
Cash dividends declared per common share	$0.175	$0.16	$0.35	$0.32

See Notes to Condensed Consolidated Financial Statements.

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THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$166.5	$205.6	$328.2	$391.3
Other comprehensive income/(loss), net of tax (Note 8):				
Unrealized gains on investment securities	5.2	3.5	9.6	6.7
Unrealized gains/(losses) on hedging activities	(41.2)	10.7	(58.2)	(27.1)
Foreign currency translation adjustments	(1.4)	(1.8)	(1.6)	(4.1)
Defined benefit pension plan adjustments	1.8	1.7	3.6	3.4
Total other comprehensive income/(loss)	(35.6)	14.1	(46.6)	(21.1)
Comprehensive income	$130.9	$219.7	$281.6	$370.2

See Notes to Condensed Consolidated Financial Statements.

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THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in millions, except per share amounts)

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$1,059.2	$ 877.5
Settlement assets	3,646.4	3,749.1
Property and equipment, net of accumulated depreciation of $632.1 and $600.0, respectively	215.3	220.5
Goodwill	3,161.7	3,162.0
Other intangible assets, net of accumulated amortization of $1,016.2 and $958.2, respectively	615.9	664.2
Other assets	709.7	746.3
Total assets	$9,408.2	$ 9,419.6
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities (Note 5)	$523.8	$ 1,129.6
Settlement obligations	3,646.4	3,749.1
Income taxes payable	403.8	407.3
Deferred tax liability, net	135.7	85.9
Borrowings	3,627.4	2,786.1
Other liabilities	409.9	359.4
Total liabilities	8,747.0	8,517.4
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, $1.00 par value; 10 shares authorized; no shares issued	—	—
Common stock, $0.01 par value; 2,000 shares authorized; 464.3 shares and 481.5 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	4.6	4.8
Capital surplus	672.1	640.9
Retained earnings	193.9	419.3
Accumulated other comprehensive loss	(209.4)	(162.8)
Total stockholders' equity	661.2	902.2
Total liabilities and stockholders' equity	$9,408.2	$ 9,419.6

See Notes to Condensed Consolidated Financial Statements.

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THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities		
Net income	$328.2	$391.3
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation	37.7	36.3
Amortization	93.9	95.2
Other non-cash items, net	104.2	42.3
Increase/(decrease) in cash resulting from changes in:		
Other assets	(25.8)	9.2
Accounts payable and accrued liabilities (Note 5)	(606.9)	(99.5)
Income taxes payable	(3.7)	5.3
Other liabilities	48.4	5.5
Net cash (used in)/provided by operating activities	(24.0)	485.6
Cash flows from investing activities		
Capitalization of contract costs	(20.5)	(60.0)
Capitalization of purchased and developed software	(22.6)	(21.3)
Purchases of property and equipment	(32.2)	(27.4)
Purchases of non-settlement related investments and other	(25.7)	(34.9)
Proceeds from maturity of non-settlement related investments	21.2	11.0
Purchases of held-to-maturity non-settlement related investments	(36.8)	(26.5)
Proceeds from held-to-maturity non-settlement related investments	25.3	2.0
Net cash used in investing activities	(91.3)	(157.1)
Cash flows from financing activities		
Cash dividends paid	(164.8)	(157.4)
Common stock repurchased (Note 8)	(386.6)	(334.0)
Net proceeds from commercial paper	445.0	—
Net proceeds from issuance of borrowings	396.2	—
Proceeds from exercise of options and other	7.2	9.6
Net cash provided by/(used in) financing activities	297.0	(481.8)
Net change in cash and cash equivalents	181.7	(153.3)
Cash and cash equivalents at beginning of period	877.5	1,315.9
Cash and cash equivalents at end of period	$1,059.2	$1,162.6
Supplemental cash flow information:		
Interest paid	$58.4	$78.4
Income taxes paid	$33.4	$50.6

See Notes to Condensed Consolidated Financial Statements.

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THE WESTERN UNION COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Business and Basis of Presentation

Business

The Western Union Company ("Western Union" or the "Company") is a leader in global money movement and payment services, providing people and businesses with fast, reliable and convenient ways to send money and make payments around the world. The Western Union® brand is globally recognized. The Company's services are primarily available through a network of agent locations in more than 200 countries and territories. Each location in the Company's agent network is capable of providing one or more of the Company's services.

Leadership and organizational structure changes within the Company have impacted how its Chief Operating Decision Maker (“CODM”) manages the Company, resulting in changes to its operating and reportable segments in the second quarter of 2017. Prior to these changes, the Company had organized its business into the following operating segments: Consumer-to-Consumer, Consumer-to-Business, and Business Solutions. As a result of these leadership and organizational structure changes, the components of the historical Consumer-to-Business operating segment have been divided between two executives, with the majority of the Company's cash-based bill payments services under one executive and the majority of the Company's electronic-based bill payments services under the other executive. The CODM allocates resources and assesses performance using discrete information for these separate components, neither of which is material from either a quantitative or qualitative perspective. Accordingly, the Company no longer reports a separate Consumer-to-Business operating segment, and no new reportable segments result from the impact of these changes. The cash-based and electronic-based bill payments services are therefore included in "Other."

Beginning in the second quarter of 2017, the Western Union business consists of the following segments:

- Consumer-to-Consumer - The Consumer-to-Consumer operating segment facilitates money transfers between two consumers, primarily through a network of third-party agents. The Company's multi-currency money transfer service is viewed by the Company as one interconnected global network where a money transfer can be sent from one location to another, around the world. This service is available for international cross-border transfers and, in certain countries, intra-country transfers. This segment also includes money transfer transactions that can be initiated through websites and mobile devices.

- Business Solutions - The Business Solutions operating segment facilitates payment and foreign exchange solutions, primarily cross-border, cross-currency transactions, for small and medium size enterprises and other organizations and individuals. The majority of the segment's business relates to exchanges of currency at spot rates, which enable customers to make cross-currency payments. In addition, in certain countries, the Company writes foreign currency forward and option contracts for customers to facilitate future payments.

All businesses and other services that have not been classified in the above segments are reported as "Other," which, as noted above, primarily includes the Company's electronic-based and cash-based bill payment services which facilitate bill payments from consumers to businesses and other organizations and which were previously reported in the historical Consumer-to-Business operating segment, and the Company's money order and other services, in addition to costs for the review and closing of acquisitions. See Note 13 for further information regarding the

Company's segments.

There are legal or regulatory limitations on transferring certain assets of the Company outside of the countries where these assets are located. However, there are generally no limitations on the use of these assets within those countries. Additionally, the Company must meet minimum capital requirements in some countries in order to maintain operating licenses. As of December 31, 2016, the amount of these net asset limitations totaled approximately $320 million, and there have been no material changes to these limitations subsequent to that date.

Various aspects of the Company's services and businesses are subject to United States federal, state and local regulation, as well as regulation by foreign jurisdictions, including certain banking and other financial services regulations.

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THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited and were prepared in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X. In compliance with those instructions, certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted.

The unaudited condensed consolidated financial statements in this quarterly report are presented on a consolidated basis and include the accounts of the Company and its majority-owned subsidiaries. Results of operations and cash flows for the interim periods are not necessarily indicative of the results that may be expected for the entire year. All significant intercompany transactions and accounts were eliminated as of June 30, 2017 and December 31, 2016 and for all periods presented. Beginning in the first quarter of 2017, the Company has reported total "Revenues" in its Condensed Consolidated Statements of Income for all periods presented and will no longer present the subcaptions previously reported, including "Transaction fees," "Foreign exchange revenues," and "Other revenues."

In the opinion of management, these condensed consolidated financial statements include all the normal recurring adjustments necessary to fairly present the Company's condensed consolidated results of operations, financial position and cash flows as of June 30, 2017 and for all periods presented. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements within the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Consistent with industry practice, the accompanying Condensed Consolidated Balance Sheets are unclassified due to the short-term nature of the Company's settlement obligations contrasted with the Company's ability to invest cash awaiting settlement in long-term investment securities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Recently Adopted Accounting Pronouncements

On January 1, 2017, the Company adopted an accounting pronouncement related to share-based payments to employees. This standard requires all excess tax benefits and tax deficiencies to be recognized as income tax expense (benefit) in the income statement and that excess tax benefits be included as an operating activity for the cash flow statement. In addition, these tax benefits must be removed from the dilutive weighted-average shares outstanding calculation as these assumed proceeds will have already been recognized in the income statement. The Company will continue its current practice of estimating forfeitures when calculating compensation expense. The adoption of this standard did not have a material impact on the Company's financial position, results of operations, cash flows, or related disclosures.

Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board issued a new accounting pronouncement regarding revenue from contracts with customers, which the Company is required to adopt on January 1, 2018. This new standard, along with subsequent amendments, provides guidance on recognizing revenue, including a five step model to determine when revenue recognition is appropriate. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management believes that the adoption of this standard will not have a material impact on the Company's financial position and results of operations and expects to adopt the standard using the modified retrospective approach, with the cumulative effect of adoption included in retained earnings as of January 1, 2018. Management continues to assess the new disclosure requirements of the standard and is enhancing its systems and processes to comply with the new disclosure requirements, but does not expect significant reporting system changes to be required.

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THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

In January 2016, the Financial Accounting Standards Board issued a new accounting pronouncement regarding classification and measurement of financial instruments. This new standard provides guidance on how entities measure certain equity investments and present changes in the fair value. This standard requires that entities measure certain equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. The Company is required to adopt the new standard on January 1, 2018. Management believes that the adoption of this standard will not have a material impact on the Company's financial position, results of operations, or related disclosures.

In February 2016, the Financial Accounting Standards Board issued a new accounting pronouncement regarding the financial reporting of leasing transactions. This new standard requires a lessee to record assets and liabilities on the balance sheet for the rights and obligations arising from leases with terms of more than 12 months. The Company is required to adopt the new standard on January 1, 2019 using a modified retrospective approach. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

In June 2016, the Financial Accounting Standards Board issued a new accounting pronouncement regarding credit losses for financial instruments. The new standard requires entities to measure expected credit losses for certain financial assets held at the reporting date using a current expected credit loss model, which is based on historical experience, adjusted for current conditions and reasonable and supportable forecasts. The Company is required to adopt the new standard on January 1, 2020. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

In October 2016, the Financial Accounting Standards Board issued a new accounting pronouncement regarding certain intra-entity asset transfers, requiring that an entity recognize any income tax consequences when the transfer occurs. The Company is required to adopt the new standard on January 1, 2018, with early adoption permitted. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position and results of operations.

In January 2017, the Financial Accounting Standards Board issued a new accounting pronouncement to simplify the method of measuring a goodwill impairment charge in the event a reporting unit’s carrying amount exceeds its fair value. In those circumstances, the new standard requires the Company to recognize an impairment charge for the amount by which the carrying amount of the reporting unit exceeds its fair value. While management cannot predict if or when such an impairment charge may occur, or the amount of any potential impairment, management believes that this standard could result in lower impairment charges for the Company. The Company is required to adopt the new standard on January 1, 2020, with early adoption permitted. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position and results of operations.

In March 2017, the Financial Accounting Standards Board issued a new accounting pronouncement to require the service cost component of defined benefit plan pension cost to be included in the same line item as other compensation costs arising from services rendered by relevant employees, with the other non-service cost components of this net benefit cost presented in the income statement separately from the service cost component, outside a subtotal of income from operations. The Company's defined benefit pension plan is frozen, thus there are no related service costs. The Company currently records the non-service costs of the defined benefit pension plan in the "Cost of services" line item of the Condensed Consolidated Statements of Income, whereas the Company expects to record these costs in the "Other income/(expense), net" line item upon adoption of the standard. The Company expects to adopt the new standard on January 1, 2018, with retrospective presentation. Management does not believe that the adoption of this standard will have a material impact on the Company's results of operations or related disclosures.

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THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

2. Earnings Per Share

The calculation of basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Outstanding options to purchase Western Union stock and unvested shares of restricted stock are excluded from basic shares outstanding. Diluted earnings per share reflects the potential dilution that could occur if outstanding stock options at the presented dates are exercised and shares of restricted stock have vested, using the treasury stock method. The treasury stock method assumes proceeds from the exercise price of stock options and the unamortized compensation expense of options and restricted stock are available to acquire shares at an average market price throughout the period, and therefore, reduce the dilutive effect.

For the three months ended June 30, 2017 and 2016, there were 3.0 million and 3.3 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation, as their effect was anti-dilutive. For the six months ended June 30, 2017 and 2016, there were 2.7 million and 4.6 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation, as their effect was anti-dilutive.

The following table provides the calculation of diluted weighted-average shares outstanding (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Basic weighted-average shares outstanding	469.4	490.3	474.6	495.1
Common stock equivalents	2.6	2.7	3.1	3.0
Diluted weighted-average shares outstanding	472.0	493.0	477.7	498.1

3. Business Transformation Expenses

In the second quarter of 2016, the Company began incurring expenses related to a business transformation initiative, referred to as the WU Way. Although the expenses related to the WU Way are specific to that initiative, the types of expenses related to the WU Way initiative are similar to expenses that the Company has previously incurred and can reasonably be expected to incur in the future. The following table summarizes the activity for the six months ended June 30, 2017 for the consulting service fees, severance, and other costs related to the business transformation accruals, which are included in "Accounts payable and accrued liabilities" in the Company's Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016 (in millions):

	Consulting Service Fees	Severance and Related Employee Benefits	Other	Total
Balance, December 31, 2016	$ 9.0	$ 3.9	$—	$ 12.9
Expenses (a)	18.7	26.8	3.8	49.3
Cash payments	(26.2)	(9.1)	(3.6)	(38.9)

Non-cash benefit (a)	—	0.9	—	0.9
Balance, June 30, 2017	$ 1.5	$ 22.5	$0.2	$24.2

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(a) Expenses include a non-cash benefit for adjustments to stock compensation for awards forfeited by employees. These expenses have been removed from the liability balance in the table above as they do not impact the business transformation accruals.

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THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following table presents the above expenses related to business transformation initiatives as reflected in the Condensed Consolidated Statements of Income (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of services	$19.5	$—	$23.7	$—
Selling, general and administrative	15.5	2.1	25.6	2.1
Total expenses, pre-tax	$35.0	$2.1	$49.3	$2.1
Total expenses, net of tax	$22.7	$1.3	$32.0	$1.3

The following table summarizes the business transformation expenses incurred by reportable segment (in millions). Certain business transformation expenses, primarily consulting expenses, are not identifiable to a specific segment, and have therefore been excluded from the table below. These expenses have not been allocated to the Company's segments disclosed in Note 13. While the expenses shown below are identifiable to the Company's segments, they have been excluded from the measurement of segment operating income provided to the CODM for purposes of assessing segment performance and decision making with respect to resource allocation.

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Consumer-to-Consumer	$ 15.2	$ 17.6
Business Solutions	5.7	6.7
Other	7.6	7.9
Total	$ 28.5	$ 32.2

There were no business transformation expenses attributable to the Company's segments for the three and six months ended June 30, 2016.

4. Fair Value Measurements

Fair value, as defined by the relevant accounting standards, represents the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. For additional information on how the Company measures fair value, refer to the Company's consolidated financial statements within the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following tables reflect assets and liabilities that were measured at fair value on a recurring basis (in millions):

	Fair Value Measurement Using			Assets/ Liabilities at Fair Value
June 30, 2017	Level 1	Level 2	Level 3	
Assets:				
Settlement assets:				
State and municipal debt securities	$ —	$ 982.3	$ —	$ 982.3
State and municipal variable rate demand notes	—	228.0	—	228.0
Corporate and other debt securities	—	27.8	—	27.8
Other assets:				
Derivatives	—	296.2	—	296.2
Total assets	$ —	$ 1,534.3	$ —	$ 1,534.3
Liabilities:				
Derivatives	$ —	$ 264.6	$ —	$ 264.6
Total liabilities	$ —	$ 264.6	$ —	$ 264.6

	Fair Value Measurement Using			Assets/ Liabilities at Fair Value
December 31, 2016	Level 1	Level 2	Level 3	
Assets:				
Settlement assets:				
State and municipal debt securities	$ —	$ 1,002.4	$ —	$ 1,002.4
State and municipal variable rate demand notes	—	203.4	—	203.4
Corporate and other debt securities	—	26.0	—	26.0
Other assets:				
Derivatives	—	365.6	—	365.6
Total assets	$ —	$ 1,597.4	$ —	$ 1,597.4
Liabilities:				
Derivatives	$ —	$ 262.3	$ —	$ 262.3
Total liabilities	$ —	$ 262.3	$ —	$ 262.3

No non-recurring fair value adjustments were recorded during the three and six months ended June 30, 2017 and 2016.

Other Fair Value Measurements

The carrying amounts for many of the Company's financial instruments, including cash and cash equivalents, settlement cash and cash equivalents, and settlement receivables and settlement obligations approximate fair value due to their short maturities. The Company's borrowings are classified as Level 2 of the valuation hierarchy, and the aggregate fair value of these borrowings was based on quotes from multiple banks and excluded the impact of related interest rate swaps. Fixed rate notes are carried in the Company's Condensed Consolidated Balance Sheets at their original issuance values as adjusted over time to accrete that value to par, except for portions of notes hedged by these interest rate swaps, as disclosed in Note 9. As of June 30, 2017, the carrying value and fair value of the Company's borrowings were $3,627.4 million and $3,725.4 million, respectively (see Note 10). As of December 31, 2016, the carrying value and fair value of the Company's borrowings were $2,786.1 million and $2,888.7 million, respectively.

The Company's investments in foreign corporate debt securities are classified as held-to-maturity securities within Level 2 of the valuation hierarchy and are recorded at amortized cost in "Other Assets" in the Company's Condensed Consolidated Balance Sheets. As of June 30, 2017, both the carrying value and fair value of the Company's foreign corporate debt securities were $51.2 million. As of December 31, 2016, both the carrying value and fair value of the Company's foreign corporate debt securities were $36.2 million.

5. Commitments and Contingencies

Letters of Credit and Bank Guarantees

The Company had approximately $210 million in outstanding letters of credit and bank guarantees as of June 30, 2017 that are primarily held in connection with safeguarding consumer funds, lease arrangements, and certain agent agreements. The letters of credit and bank guarantees have expiration dates through 2022, with many having a one-year renewal option. The Company expects to renew the letters of credit and bank guarantees prior to expiration in most circumstances.

Litigation and Related Contingencies

The Company is subject to certain claims and litigation that could result in losses, including damages, fines and/or civil penalties, which could be significant, and in some cases, criminal charges. The Company regularly evaluates the status of legal matters to assess whether a loss is probable and reasonably estimable in determining whether an accrual is appropriate. Furthermore, in determining whether disclosure is appropriate, the Company evaluates each legal matter to assess if there is at least a reasonable possibility that a loss or additional loss may have been incurred and whether an estimate of possible loss or range of loss can be made. Unless otherwise specified below, the Company believes that there is at least a reasonable possibility that a loss or additional loss may have been incurred for each of the matters described below.

For those matters that the Company believes there is at least a reasonable possibility that a loss or additional loss may have been incurred and can reasonably estimate the loss or potential loss, the reasonably possible potential litigation losses in excess of the Company's recorded liability for probable and estimable losses was approximately $200 million as of June 30, 2017 and related to the New York Department of Financial Services (the "NYDFS"), James P. Tennille and Robert P. Smet, and National Court of Spain matters further described below. For certain of the following matters, management is unable to provide a meaningful estimate of the possible loss or range of loss because, among other reasons: (a) the proceedings are in preliminary stages; (b) specific damages have not been sought; (c) damage claims are unsupported and/or unreasonable; (d) there is uncertainty as to the outcome of pending appeals or motions; (e) there are significant factual issues to be resolved; or (f) novel legal issues or unsettled legal theories are being asserted.

The outcomes of legal actions are unpredictable and subject to significant uncertainties, and it is inherently difficult to determine whether any loss is probable or even possible. It is also inherently difficult to estimate the amount of any loss and there may be matters for which a loss is probable or reasonably possible but not currently estimable. Accordingly, actual losses may be in excess of the established liability or the range of reasonably possible loss.

United States Department of Justice, Federal Trade Commission, Financial Crimes Enforcement Network, and State Attorneys General Settlements

In late November 2016, the Company entered into discussions with the United States Department of Justice (the “DOJ”), the United States Attorney's Office for the Central District of California ("USAO-CDCA"), the United States Attorney’s Office for the Eastern District of Pennsylvania ("USAO-EDPA"), the United States Attorney’s Office for the Middle District of Pennsylvania ("USAO-MDPA"), and the United States Attorney’s Office for the Southern District of Florida (“USAO-SDFL”) to resolve the investigations by the USAO-CDCA, USAO-EDPA, USAO-MDPA, and USAO-SDFL (collectively, the “USAOs”) (collectively, the “USAO Investigations”). On January 19, 2017, the Company announced that it, or its subsidiary Western Union Financial Services, Inc. (“WUFSI”), had entered into (1) a Deferred Prosecution Agreement (the “DPA”) with the DOJ and the USAOs; (2) a Stipulated Order for Permanent Injunction and Final Judgment (the “Consent Order”) with the United States Federal Trade Commission (“FTC”) resolving claims by the FTC alleging unfair acts and practices under the Federal Trade Commission Act and for violations of the FTC Telemarketing Sales Rule; and (3) a Consent to the Assessment of Civil Money Penalty with the Financial Crimes Enforcement Network (“FinCEN”) of the United States Department of Treasury (the “FinCEN Agreement”), to resolve the respective investigations of those agencies. FinCEN provided notice to the Company dated December 16, 2016 of its investigation regarding possible violations of the United States Bank Secrecy Act ("BSA"). On January 31, 2017, the Company entered into assurances of discontinuance/assurances of voluntary compliance with the attorneys general of 49 U.S. states and the District of Columbia named therein to resolve investigations by the state attorneys general, which sought information and documents relating to money transfers sent from the United States to certain countries, consumer fraud complaints that the Company had received and the Company's procedures to help identify and prevent fraudulent transfers. On April 12, 2017, the Company settled with the one remaining state attorney general under effectively the same terms as the January 31, 2017 agreement with no additional monetary payment required. The agreements with the state attorneys general are collectively referred to herein as the "State AG Agreement." The DPA, Consent Order, FinCEN Agreement, and State AG Agreement are collectively referred to herein as the "Joint Settlement Agreements."

Pursuant to the DPA, the USAOs filed a two-count criminal information in the United States District Court for the Middle District of Pennsylvania, charging the Company with aiding and abetting wire fraud and willfully failing to implement an effective anti-money laundering ("AML") program. The USAOs agreed that if the Company fully complies with all of its obligations under the DPA, the USAOs will, at the conclusion of the DPA’s term, seek dismissal with prejudice of the criminal information filed against the Company.

Under the Joint Settlement Agreements, the Company was required to (1) pay an aggregate amount of $586 million to the DOJ to be used to reimburse consumers who were the victims of third-party fraud conducted through the Company’s money transfer services (the “Compensation Payment”), (2) pay an aggregate amount of $5 million to the State Attorneys General to reimburse investigative, enforcement, and other costs, and (3) retain an independent compliance auditor for three years to review and assess actions taken by the Company under the Consent Order to further enhance its oversight of agents and protection of consumers. The FinCEN Agreement also set forth a civil penalty of $184 million, the full amount of which was deemed satisfied by the Compensation Payment, without any additional payment or non-monetary obligations. No separate payment to the FTC was required under the Joint Settlement Agreements. The Company paid the Compensation Payment and the aggregate amount due to the State Attorneys General during the six months ended June 30, 2017. The Company had accrued the Compensation Payment and the aggregate amount due to the State Attorneys General in "Accounts payable and accrued liabilities" in the Company's Condensed Consolidated Balance Sheets as of December 31, 2016. In the second quarter of 2017, pursuant to the terms of the Joint Settlement Agreements, the Company engaged an independent compliance auditor.

The Joint Settlement Agreements also require, among other things, the Company to adopt certain new or enhanced practices with respect to its compliance program relating to consumer reimbursement, agent due diligence, agent training, monitoring, reporting, and record-keeping by the Company and its agents, consumer fraud disclosures, agent suspensions and terminations, and other items. The changes in the Company’s compliance program required by the Joint Settlement Agreements will have adverse effects on the Company’s business, including additional costs and potential loss of business. The Company could also face actions from other regulators as a result of the Joint Settlement Agreements. In addition, if the Company fails to comply with the Joint Settlement Agreements, it could face criminal prosecution, civil litigation, significant fines, damage awards or other regulatory consequences. Any or all of these outcomes could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

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State of Arizona Settlement Agreement

On February 11, 2010, WUFSI signed a settlement agreement, as amended ("Southwest Border Agreement"), which resolved all outstanding legal issues and claims with the State of Arizona (the "State") and required the Company to fund a multi-state not-for-profit organization promoting safety and security along the United States and Mexico border, in which California, Texas and New Mexico are participating with the State. As part of the Southwest Border Agreement, the Company has made and expects to make certain investments in its AML compliance programs along the United States and Mexico border and a monitor ("Monitor") was engaged for those programs. The Company has incurred, and expects to continue to incur, significant costs in connection with the Southwest Border Agreement. The Monitor made a number of primary and secondary recommendations related to WUFSI’s AML compliance programs, which WUFSI has implemented, including programs related to the Company's Business Solutions segment.

On June 29, 2016, the Monitor notified WUFSI and the State that the Monitor had determined that (i) WUFSI had successfully implemented all of the primary recommendations, and (ii) WUFSI has implemented an effective AML compliance program along the United States and Mexico border. On July 27, 2016, the Monitor delivered its final report for the primary recommendations period and the Superior Court of Arizona in and for Maricopa County (the "Arizona Superior Court") accepted the report.

On June 9, 2017, the Monitor delivered its final report for the secondary recommendations period concluding that WUFSI successfully completed the secondary recommendations, and the Arizona Superior Court accepted the report, immediately concluding and closing the Monitor’s engagement.

The Southwest Border Agreement continues to require WUFSI to make payments of $150,000 per month through January 2019 to fund the activities and expenses of a money transfer transaction data analysis center formed by WUFSI and a Financial Crimes Task Force comprised of federal, state and local law enforcement representatives, including those from the State. In addition, California, Texas, and New Mexico are participating in the money transfer transaction data analysis center.

The changes in WUFSI’s AML compliance program required by the Southwest Border Agreement and the Monitor’s recommendations have had, and will continue to have, adverse effects on the Company’s business, including additional costs.

Shareholder Derivative Actions

On January 13, 2014, Natalie Gordon served the Company with a Verified Shareholder Derivative Complaint and Jury Demand that was filed in District Court, Douglas County, Colorado naming the Company’s President and Chief Executive Officer, one of its former executive officers, one of its former directors, and all but one of its current directors as individual defendants, and the Company as a nominal defendant. The complaint asserts claims for breach of fiduciary duty and gross mismanagement against all of the individual defendants and unjust enrichment against the President and Chief Executive Officer and the former executive officer based on allegations that between February 12, 2012 to October 30, 2012, the individual defendants made or caused the Company to issue false and misleading statements or failed to make adequate disclosures regarding the effects of the Southwest Border Agreement, including regarding the anticipated costs of compliance with the Southwest Border Agreement, potential effects on business operations, and Company projections. Plaintiff also alleges that the individual defendants caused or allowed the Company to lack requisite internal controls, caused or allowed financial statements to be misstated, and caused the

Company to be subject to the costs, expenses and liabilities associated with City of Taylor Police and Fire Retirement System v. The Western Union Company, et al., a lawsuit that was subsequently renamed and dismissed. Plaintiff further alleges that the Company's President and Chief Executive Officer and the former executive officer received excessive compensation based on the allegedly inaccurate financial statements. On March 12, 2014, the Court entered an order granting the parties' joint motion to stay proceedings in the case during the pendency of certain of the shareholder derivative actions described below.

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In 2014, Stanley Lieblein, R. Andre Klein, City of Cambridge Retirement System, Mayar Fund Ltd, Louisiana Municipal Police Employees' Retirement System, MARTA/ATU Local 732 Employees Retirement Plan, and The Police Retirement System of St. Louis filed shareholder derivative complaints in the United States District Court for the District of Colorado (or were removed to the United States District Court for the District of Colorado) naming the Company's President and Chief Executive Officer and certain current and former directors and a former executive officer as individual defendants, and the Company as a nominal defendant. On January 5, 2015, the court entered an order consolidating the actions and appointing City of Cambridge Retirement System and MARTA/ATU Local 732 Employees Retirement Plan as co-lead plaintiffs. On February 4, 2015, co-lead plaintiffs filed a verified consolidated shareholder derivative complaint naming the Company's President and Chief Executive Officer, two of its former executive officers and all but two of its current directors as individual defendants, and the Company as a nominal defendant. The consolidated complaint asserts separate claims for breach of fiduciary duty against the director defendants and the officer defendants, claims against all of the individual defendants for violations of section 14(a) of the Securities Exchange Act of 1934 ("Exchange Act"), corporate waste and unjust enrichment, and a claim against the former executive officer for breach of fiduciary duties for insider selling and misappropriation of information. The breach of fiduciary duty claim against the director defendants includes allegations that they declined to implement an effective AML compliance system after receiving numerous red flags indicating prolonged willful illegality, obstructed the Southwest Border Monitor's efforts to impose effective compliance systems on the Company, failed to take action in response to alleged Western Union management efforts to undermine the Monitor, reappointed the same directors to the Audit Committee and Corporate Governance and Public Policy Committees constituting a majority of those committees between 2006 and 2014, appointed a majority of directors to the Compliance Committee who were directly involved in overseeing the alleged misconduct as members of the Audit Committee and the Corporate Governance and Public Policy Committee, caused the Company to materially breach the Southwest Border Agreement, caused the Company to repurchase its stock at artificially inflated prices, awarded the Company's senior executives excessive compensation despite their responsibility for the Company's alleged willful non-compliance with state and federal AML laws, and failed to prevent the former executive officer from misappropriating and profiting from nonpublic information when making allegedly unlawful stock sales. The breach of fiduciary duty claim against the officer defendants includes allegations that they caused the Company and allowed its agents to ignore the recording and reporting requirements of the BSA and parallel AML laws and regulations for a prolonged period of time, authorized and implemented AML policies and practices that they knew or should have known to be inadequate, caused the Company to fail to comply with the Southwest Border Agreement and refused to implement and maintain adequate internal controls. The claim for violations of section 14(a) of the Exchange Act includes allegations that the individual defendants caused the Company to issue proxy statements in 2012, 2013 and 2014 containing materially incomplete and inaccurate disclosures - in particular, by failing to disclose the extent to which the Company's financial results depended on the non-compliance with AML requirements, the Board's awareness of the regulatory and criminal enforcement actions in real time pursuant to the 2003 Consent Agreement with the California Department of Financial Institutions and that the directors were not curing violations and preventing misconduct, the extent to which the Board considered the flood of increasingly severe red flags in their determination to re-nominate certain directors to the Audit Committee between 2006 and 2010, and the extent to which the Board considered ongoing regulatory and criminal investigations in awarding multi-million dollar compensation packages to senior executives. The corporate waste claim includes allegations that the individual defendants paid or approved the payment of undeserved executive and director compensation based on the illegal conduct alleged in the consolidated complaint, which exposed the Company to civil liabilities and fines. The corporate waste claim also includes allegations that the individual defendants made improper statements and omissions, which forced the Company to expend resources in defending itself in City of Taylor Police and Fire Retirement System v. The Western Union Company, et al., a lawsuit that was subsequently renamed and dismissed, authorized the repurchase of over $1.565 billion of the Company's stock at prices they knew or recklessly were aware, were artificially inflated, failed to maintain sufficient internal controls over the Company's marketing and sales process, failed to consider the interests of the Company and its shareholders, and failed to conduct the proper supervision. The claim for unjust enrichment includes allegations that the individual defendants derived compensation, fees and other benefits from the Company and were otherwise unjustly enriched by their wrongful acts and omissions in managing the Company. The claim for breach of fiduciary duties for insider selling and misappropriation of information includes allegations that the former executive sold Company stock while knowing material, nonpublic information that would have significantly reduced the market price of the stock. On March 16, 2015, the defendants filed a motion to dismiss the consolidated complaint. On March 31, 2016, the Court entered an order granting the defendants' collective motion to dismiss without prejudice, denying as moot a separate motion to dismiss that was filed by the former executive officer, and staying the order for 30 days, within which plaintiffs could file an amended complaint that cured the defects noted in the order. On May 2, 2016, co-lead plaintiffs filed a verified amended consolidated shareholder derivative complaint naming the Company's President and Chief Executive Officer, eight of its current directors (including the Company's President and Chief Executive Officer, who also serves as a director) and one of its former directors as individual defendants, and the Company as a nominal defendant. The amended complaint, among other things, drops the claims against the former executive officer named in the prior complaint, realleges and narrows the breach of fiduciary duty claims, and drops the remaining claims.

On June 15, 2016, defendants filed a motion to dismiss the amended consolidated shareholder derivative complaint. On August 1, 2016, plaintiffs filed an opposition to the motion to dismiss. On September 1, 2016, defendants filed a reply brief in support of the motion to dismiss. On February 24, 2017, plaintiffs filed a motion to supplement the amended complaint with allegations relating to the DPA, the criminal information filed in the United States District Court for the Middle District of Pennsylvania, and the FTC's January 19, 2017 Complaint for Permanent Injunctive and Other Equitable Relief and the Consent Order referenced in the United States Department of Justice, Federal Trade Commission, Financial Crimes Enforcement Network, and State Attorneys General Settlements section above. The same day, the Court granted plaintiffs' request to supplement the complaint, ordered them to file a second amended complaint, denied without prejudice defendants' motion to dismiss and granted defendants leave to renew the motion to dismiss. On March 17, 2017, plaintiffs filed a second amended derivative complaint. On April 21, 2017, defendants filed a motion to dismiss the second amended derivative complaint. On June 9, 2017, plaintiffs filed an opposition to defendants' motion to dismiss the second amended derivative complaint. On July 14, 2017, defendants filed a reply in support of the motion to dismiss.

All of the actions described above under "Shareholder Derivative Actions" are in a preliminary stage and the Company is unable to predict the outcome, or reasonably estimate the possible loss or range of loss, if any, which could be associated with these actions. The Company and the named individuals intend to vigorously defend themselves in all of these matters.

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Other Matters

The Company and one of its subsidiaries are defendants in two purported class action lawsuits: James P. Tennille v. The Western Union Company and Robert P. Smet v. The Western Union Company, both of which are pending in the United States District Court for the District of Colorado. The original complaints asserted claims for violation of various consumer protection laws, unjust enrichment, conversion and declaratory relief, based on allegations that the Company waits too long to inform consumers if their money transfers are not redeemed by the recipients and that the Company uses the unredeemed funds to generate income until the funds are escheated to state governments. The Tennille complaint was served on the Company on April 27, 2009. The Smet complaint was served on the Company on April 6, 2010. On September 21, 2009, the Court granted the Company's motion to dismiss the Tennille complaint and gave the plaintiff leave to file an amended complaint. On October 21, 2009, Tennille filed an amended complaint. The Company moved to dismiss the Tennille amended complaint and the Smet complaint. On November 8, 2010, the Court denied the motion to dismiss as to the plaintiffs' unjust enrichment and conversion claims. On February 4, 2011, the Court dismissed the plaintiffs' consumer protection claims. On March 11, 2011, the plaintiffs filed an amended complaint that adds a claim for breach of fiduciary duty, various elements to its declaratory relief claim and WUFSI as a defendant. On April 25, 2011, the Company and WUFSI filed a motion to dismiss the breach of fiduciary duty and declaratory relief claims. WUFSI also moved to compel arbitration of the plaintiffs' claims and to stay the action pending arbitration. On November 21, 2011, the Court denied the motion to compel arbitration and the stay request. Both companies appealed the decision. On January 24, 2012, the United States Court of Appeals for the Tenth Circuit granted the companies' request to stay the District Court proceedings pending their appeal. During the fourth quarter of 2012, the parties executed a settlement agreement, which the Court preliminarily approved on January 3, 2013. On June 25, 2013, the Court entered an order certifying the class and granting final approval to the settlement. Under the approved settlement, a substantial amount of the settlement proceeds, as well as all of the class counsel’s fees, administrative fees and other expenses, would be paid from the class members' unclaimed money transfer funds, which are included within "Settlement obligations" in the Company's Condensed Consolidated Balance Sheets. During the final approval hearing, the Court overruled objections to the settlement that had been filed by several class members. In July 2013, two of those class members filed notices of appeal. On May 1, 2015, the United States Court of Appeals for the Tenth Circuit affirmed the District Court’s decision to overrule the objections filed by the two class members who appealed. On January 11, 2016, the United States Supreme Court denied petitions for certiorari that were filed by the two class members who appealed. On February 1, 2016, pursuant to the settlement agreement and the Court's June 25, 2013 final approval order, Western Union deposited the class members' unclaimed money transfer funds into a class settlement fund, from which class member claims, administrative fees and class counsel’s fees, as well as other expenses will be paid. On November 6, 2013, the Attorney General of California notified Western Union of the California Controller’s position that Western Union’s deposit of the unclaimed money transfer funds into the class settlement fund pursuant to the settlement “will not satisfy Western Union’s obligations to report and remit funds” under California’s unclaimed property law, and that “Western Union will remain liable to the State of California” for the funds that would have escheated to California in the absence of the settlement. The State of Pennsylvania and District of Columbia have previously expressed similar views. Other states have also recently expressed concerns about the settlement and many have not yet expressed an opinion. Since some states and jurisdictions believe that the Company must escheat its full share of the settlement fund and that the deductions for class counsel's fees, administrative costs, and other expenses that are required under the settlement agreement are not permitted, there is a reasonable possibility a loss could result up to approximately the amount of those fees and other expenses.

On March 12, 2014, Jason Douglas filed a purported class action complaint in the United States District Court for the Northern District of Illinois asserting a claim under the Telephone Consumer Protection Act, 47 U.S.C. § 227, et seq., based on allegations that since 2009, the Company has sent text messages to class members' wireless telephones without their consent. During the first quarter of 2015, the Company's insurance carrier and the plaintiff reached an agreement to create an $8.5 million settlement fund that will be used to pay all class member claims, class counsel's fees and the costs of administering the settlement. The agreement has been signed by the parties and, on November 10, 2015, the Court granted preliminary approval to the settlement. The Company accrued an amount equal to the retention under its insurance policy in previous quarters and believes that any amounts in excess of this accrual will be covered by the insurer. However, if the Company's insurer is unable to or refuses to satisfy its obligations under the policy or the parties are unable to reach a definitive agreement or otherwise agree on a resolution, the Company's financial condition, results of operations, and cash flows could be adversely impacted. As the parties have reached an agreement in this matter, the Company believes that the potential for additional loss in excess of amounts already accrued is remote.

On February 10, 2015, Caryn Pincus filed a purported class action lawsuit in the United States District Court for the Southern District of Florida against Speedpay, Inc. ("Speedpay"), a subsidiary of the Company, asserting claims based on allegations that Speedpay imposed an unlawful surcharge on credit card transactions and that Speedpay engages in money transmission without a license. The complaint requests certification of a class and two subclasses generally comprised of consumers in Florida who made a payment through Speedpay’s bill payment services using a credit card and were charged a surcharge for such payment during the four-year and five-year periods prior to the filing of the complaint through the date of class certification. On April 6, 2015, Speedpay filed a motion to dismiss the complaint. On April 23, 2015, in response to the motion to dismiss, Pincus filed an amended complaint that adds claims (1) under the Florida Civil Remedies for Criminal Practices Act, which authorizes civil remedies for certain criminal conduct; and (2) for violation of the federal Racketeer Influenced and Corrupt Organizations Act ("RICO"). On May 15, 2015, Speedpay filed a motion to dismiss the amended complaint. On October 6, 2015, the Court entered an order denying Speedpay’s motion to dismiss. On October 20, 2015, Speedpay filed an answer to the amended complaint. On December 1, 2015, Pincus filed a second amended complaint that revised her factual allegations, but added no new claims. On December 18, 2015, Speedpay filed an answer to the second amended complaint. On May 20, 2016, Speedpay filed a motion for judgment on the pleadings as to Pincus' Florida Civil Remedies for Criminal Practices Act and federal RICO claims. On June 7, 2016, Pincus filed an opposition to Speedpay's motion for judgment on the pleadings. On June 17, 2016, Speedpay filed a reply brief in support of the motion. On October 28, 2016, Pincus filed a motion seeking class certification. The motion seeks the certification of a class consisting of “All (i) persons in Florida (ii) who paid Speedpay, Inc. a fee for using Speedpay, Inc.’s electronic payment services (iii) during the five year period prior to the filing of the complaint in this action through the present.” Pincus also filed a motion to file her motion under seal. On November 4, 2016, the Court denied Pincus’ motion for class certification without prejudice and motion to seal and ordered her to file a new motion that redacts proprietary and private information. Later that day, Pincus filed a redacted version of the motion. On November 7, 2016, Speedpay filed a motion for summary judgment on Pincus’ remaining claims. On December 15, 2016, Speedpay filed an opposition to Pincus’ class certification motion. The same day, Pincus filed an opposition to Speedpay’s summary judgment motion and requested summary judgment on her individual and class claims. On January 12, 2017, Speedpay filed a reply in support of its summary judgment motion and Pincus filed a reply in support of her class certification motion. On March 28, 2017, the Court granted Speedpay’s motion for judgment on the pleadings as to Pincus’ Florida Civil Remedies for Criminal Practices Act and federal RICO claims. On June 27, 2017, the Court granted Speedpay’s summary judgment motion, entered judgment in favor of Speedpay and ordered the Court clerk to close the case. On July 5, 2017, Pincus filed a notice of appeal to the United States Court of Appeals for the Eleventh Circuit.

On January 26, 2017, Martin Herman filed a purported class action complaint in the United States District Court for the Central District of California against the Company, its President and Chief Executive Officer, its Chief Financial Officer, and a former executive officer of the Company, asserting claims under sections 10(b) of the Exchange Act and Securities and Exchange Commission rule 10b-5 against all defendants and a claim under section 20(a) of the Exchange Act against the individual defendants. The complaint alleges that, during the purported class period, February 24, 2012 through January 19, 2017, defendants made false or misleading statements or failed to disclose adverse material facts known to them, including those regarding: (1) the effectiveness of the Company’s fraud prevention program and the program’s compliance with applicable law and best practices; (2) the development and enhancement of the Company’s global compliance policies and AML program; and (3) the Company’s compliance with regulatory requirements. On March 6, 2017, the defendants filed a motion to transfer venue of the case to the United States District Court for the District of Colorado. The Court granted that motion on March 30, 2017, and transferred the case. This action is in a preliminary stage and the Company is unable to predict the outcome, or the possible loss or range of loss, if any, which could be associated with this action. The Company and the named individuals intend to vigorously defend themselves in this matter.

On February 22, 2017, Lawrence Henry Smallen and Laura Anne Smallen Revocable Living Trust filed a purported class action complaint in the United States District Court for the District of Colorado. The defendants, class period, claims and bases are the same as those in the purported class action complaint filed by Martin Herman described above. This action is in a preliminary stage and the Company is unable to predict the outcome, or the possible loss or range of loss, if any, which could be associated with this action. The Company and the named individuals intend to vigorously defend themselves in this matter.

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On February 22, 2017, UA Local 13 Pension Fund filed a purported class action complaint in the United States District Court for the Middle District of Pennsylvania. The alleged factual bases are similar to and the defendants, class period and claims are the same as those in the purported class action complaints filed by Martin Herman and Lawrence Henry Smallen and Laura Anne Smallen Revocable Living Trust described above, except that the plaintiff's claim under section 20(a) of the Exchange Act is against all of the defendants. On March 10, 2017, the defendants filed an unopposed motion to transfer venue to the United States District Court for the District of Colorado. The Court granted the motion and transferred the case. This action is in a preliminary stage and the Company is unable to predict the outcome, or the possible loss or range of loss, if any, which could be associated with this action. The Company and the named individuals intend to vigorously defend themselves in this matter.

On March 27, 2017, plaintiffs in the Martin Herman, Lawrence Henry Smallen and Laura Anne Smallen Revocable Living Trust, and UA Local 13 Pension Fund actions filed motions to consolidate the three cases and to be appointed lead plaintiff. On May 3, 2017, the Court granted the motion to consolidate.

On February 13, 2017, the Company's subsidiary, Western Union Payment Services Ireland Limited ("WUPSIL"), was served with a writ of accusation from the National Court of Spain. The writ charges 98 former Western Union money transfer agents or agent representatives with fraud and money laundering in connection with consumer fraud scams they allegedly perpetrated using Western Union money transfer transactions. The writ also names WUPSIL as a civil defendant, allegedly responsible under Spanish law to pay any portion of the alleged amount in victim losses that cannot be repaid by any of the criminal defendants who are convicted. The Company expects that WUPSIL will be required to guarantee or provide security to cover the alleged victim losses plus potential interest and other costs. Due to the preliminary stage of this matter, the Company is unable to predict the outcome, or the amount of loss, if any, associated with this matter.

On March 31, 2017, the Company received a request for the production of documents from the NYDFS, following up on a meeting the Company had with the NYDFS on March 7, 2017. The requests pertain to the Company's oversight of one current and two former Western Union agents located in New York state. The two former agents were identified in the DPA described in the United States Department of Justice, Federal Trade Commission, Financial Crimes Enforcement Network, and State Attorneys General Settlements section above, and were terminated as agents by the Company prior to 2013. The Company complied with all requests and produced all requested documents to the NYDFS. On July 28, 2017, the NYDFS informed the Company that the facts set forth in the DPA regarding the Company's anti-money laundering programs over the 2004 through 2012 period give the NYDFS a basis to take additional enforcement action. The NYDFS proposed a resolution of the matter involving, among other things, a payment to the NYDFS. The Company is continuing to engage in discussions with the NYDFS in an effort to reach an appropriate resolution of this matter. Due to the stage and nature of the discussions, the Company has accrued $49 million toward a possible resolution of this matter. However, there is no certainty that the Company will be able to resolve this matter for this amount. If the matter is not settled and proceeds to civil litigation, the NYDFS would seek to impose fines, damages, or other regulatory consequences. Resolution of this matter could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flow. If the NYDFS files a complaint against the Company, the Company intends to defend itself vigorously.

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In addition to the principal matters described above, the Company is a party to a variety of other legal matters that arise in the normal course of the Company's business. While the results of these other legal matters cannot be predicted with certainty, management believes that the final outcome of these matters will not have a material adverse effect either individually or in the aggregate on the Company's financial condition, results of operations, or cash flows.

On January 26, 2006, the First Data Corporation ("First Data") Board of Directors announced its intention to pursue the distribution of all of its money transfer and consumer payments business and its interest in a Western Union money transfer agent, as well as its related assets, including real estate, through a tax-free distribution to First Data shareholders (the "Spin-off"). The Spin-off resulted in the formation of the Company and these assets and businesses no longer being part of First Data. Pursuant to the separation and distribution agreement with First Data in connection with the Spin-off, First Data and the Company are each liable for, and agreed to perform, all liabilities with respect to their respective businesses. In addition, the separation and distribution agreement also provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of the Company's business with the Company and financial responsibility for the obligations and liabilities of First Data's retained businesses with First Data. The Company also entered into a tax allocation agreement ("Tax Allocation Agreement") that sets forth the rights and obligations of First Data and the Company with respect to taxes imposed on their respective businesses both prior to and after the Spin-off as well as potential tax obligations for which the Company may be liable in conjunction with the Spin-off (see Note 11).

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6. Related Party Transactions
The Company has ownership interests in certain of its agents accounted for under the equity method of accounting. The Company pays these agents commissions for money transfer and other services provided on the Company's behalf. Commission expense recognized for these agents for the three months ended June 30, 2017 and 2016 totaled $17.0 million and $17.1 million, respectively, and $33.0 million and $32.7 million for the six months ended June 30, 2017 and 2016, respectively.

7. Settlement Assets and Obligations and Non-Settlement Related Investments

Settlement assets represent funds received or to be received from agents for unsettled money transfers, money orders and consumer payments. The Company records corresponding settlement obligations relating to amounts payable under money transfers, money orders and consumer payment service arrangements. Settlement assets and obligations also include amounts receivable from, and payable to, customers for the value of their cross-currency payment transactions related to the Business Solutions segment.

Settlement assets and obligations consisted of the following (in millions):

	2017	2016
Settlement assets:		
Cash and cash equivalents	$1,148.2	$1,190.0
Receivables from selling agents and Business Solutions customers	1,260.1	1,327.3
Investment securities	1,238.1	1,231.8
	$3,646.4	$3,749.1
Settlement obligations:		
Money transfer, money order and payment service payables	$2,671.8	$2,598.2
Payables to agents	974.6	1,150.9
	$3,646.4	$3,749.1

Investment securities included in "Settlement assets" in the Company's Condensed Consolidated Balance Sheets consist primarily of highly-rated state and municipal debt securities, including fixed rate term notes and variable rate demand notes. Variable rate demand note securities can be put (sold at par) typically on a daily basis with settlement periods ranging from the same day to one week, but have varying maturities through 2045. These securities may be used by the Company for short-term liquidity needs and held for short periods of time. The Company is required to hold highly-rated, investment grade securities and such investments are restricted to satisfy outstanding settlement obligations in accordance with applicable state and foreign country requirements.

The substantial majority of the Company's investment securities are classified as available-for-sale and recorded at fair value. Investment securities are exposed to market risk due to changes in interest rates and credit risk. Western Union regularly monitors credit risk and attempts to mitigate its exposure by investing in highly-rated securities and through investment diversification.

Unrealized gains and losses on available-for-sale securities are excluded from earnings and presented as a component of accumulated other comprehensive loss, net of related deferred taxes. Gains and losses on investments are calculated using the specific-identification method and are recognized during the period in which the investment is sold or when an investment experiences an other-than-temporary decline in value. Proceeds from the sale and maturity of available-for-sale securities during the six months ended June 30, 2017 and 2016 were $3.0 billion and $1.2 billion, respectively. The change in proceeds from the sale and maturity of available-for-sale securities for the six months ended June 30, 2017 compared to the prior period was primarily due to increased sales of variable rate demand notes securities.

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The components of investment securities are as follows (in millions):

June 30, 2017	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains
Settlement assets:					
Available-for-sale securities:					
State and municipal debt securities (a)	$ 973.9	$ 982.3	$ 12.5	$ (4.1)	$ 8.4
State and municipal variable rate demand notes	228.0	228.0	—	—	—
Corporate and other debt securities	27.3	27.8	0.5	—	0.5
	1,229.2	1,238.1	13.0	(4.1)	8.9
Other assets:					
Held-to-maturity securities:					
Foreign corporate debt securities	51.2	51.2	—	—	—
	$ 1,280.4	$ 1,289.3	$ 13.0	$ (4.1)	$ 8.9

December 31, 2016	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Losses
Settlement assets:					
Available-for-sale securities:					
State and municipal debt securities (a)	$ 1,008.5	$ 1,002.4	$ 5.0	$ (11.1)	$ (6.1)
State and municipal variable rate demand notes	203.4	203.4	—	—	—
Corporate and other debt securities	26.0	26.0	—	—	—
	1,237.9	1,231.8	5.0	(11.1)	(6.1)
Other assets:					
Held-to-maturity securities:					
Foreign corporate debt securities	36.2	36.2	0.1	(0.1)	—
	$ 1,274.1	$ 1,268.0	$ 5.1	$ (11.2)	$ (6.1)

(a) The majority of these securities are fixed rate instruments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following summarizes the contractual maturities of settlement-related debt securities as of June 30, 2017 (in millions):

	Fair Value
Due within 1 year	$123.2
Due after 1 year through 5 years	538.1
Due after 5 years through 10 years	247.0
Due after 10 years	329.8
	$1,238.1

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay the obligations or the Company may have the right to put the obligation prior to its contractual maturity, as with variable rate demand notes. Variable rate demand notes, having a fair value of $9.6 million, $9.6 million and $208.8 million are included in the "Due after 1 year through 5 years," "Due after 5 years through 10 years," and "Due after 10 years" categories, respectively, in the table above. The significant majority of the held-to-maturity foreign corporate debt securities are due within 2 years.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

8. Stockholders' Equity

Accumulated other comprehensive loss

The following table summarizes the components of accumulated other comprehensive loss, net of tax (in millions). All amounts reclassified from accumulated other comprehensive loss affect the line items as indicated below within the Condensed Consolidated Statements of Income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Unrealized gains/(losses) on investment securities, beginning of period	$0.6	$11.0	$(3.8)	$7.8
Unrealized gains	8.6	6.2	15.4	12.2
Tax expense	(3.1)	(2.3)	(5.5)	(4.4)
Reclassification of gains into "Revenues"	(0.4)	(0.7)	(0.4)	(1.8)
Tax expense related to reclassifications	0.1	0.3	0.1	0.7
Net unrealized gains on investment securities	5.2	3.5	9.6	6.7
Unrealized gains on investment securities, end of period	$5.8	$14.5	$5.8	$14.5
Unrealized gains on hedging activities, beginning of period	$16.8	$3.6	$33.8	$41.4
Unrealized gains/(losses)	(36.0)	20.1	(47.2)	(6.2)
Tax benefit	0.8	0.2	1.0	2.3
Reclassification of gains into "Revenues"	(6.9)	(10.9)	(13.5)	(26.0)
Reclassification of losses into "Interest expense"	0.9	0.9	1.7	1.8
Tax expense/(benefit) related to reclassifications	—	0.4	(0.2)	1.0
Net unrealized gains/(losses) on hedging activities	(41.2)	10.7	(58.2)	(27.1)
Unrealized gains/(losses) on hedging activities, end of period	$(24.4)	$14.3	$(24.4)	$14.3
Foreign currency translation adjustments, beginning of period	$(70.9)	$(68.3)	$(70.7)	$(66.0